

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58274

PORT OF SEATTLE

King County, Washington

January 1, 1995 Through December 31, 1995

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**PORT OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995**

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Port Commission
Port of Seattle
Seattle, Washington

We have audited the financial statements, as listed in the table of contents, of the Port of Seattle, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated March 26, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Port of Seattle is the responsibility of the port's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the port's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the port complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the port's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the port and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of management and the port commission and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 26, 1997

PORT OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level**

Port Commission
Port of Seattle
Seattle, Washington

We have audited the financial statements of the Port of Seattle, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated March 26, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the port is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the port, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of

management in the financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

We noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the port's management in our reports on general requirements and specific requirements for major programs and in the Schedule of Federal Findings.

Further, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the port in a separate letter dated March 26, 1997.

This report is intended for the information of management and the port commission and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 26, 1997

PORT OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Financial Statements

Port Commission
Port of Seattle
Seattle, Washington

We have audited the accompanying Balance Sheets of the Port of Seattle, King County, Washington, as of the fiscal years ended December 31, 1995 and 1994, and the related Statements of Operations, Equity, and Cash Flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the port's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Port of Seattle as of December 31, 1995 and 1994, and the results of its operations and cash flows for each of the three years ended December 31, 1995, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 1997, on our consideration of the port's internal control structure and a report dated March 26, 1997, on its compliance with laws and regulations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 26, 1997

PORT OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Port Commission
Port of Seattle
Seattle, Washington

We have audited the financial statements of the Port of Seattle, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated March 26, 1997. These financial statements are the responsibility of the port's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the Port of Seattle taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 26, 1997

**PORT OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995**

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Port Commission
Port of Seattle
Seattle, Washington

We have audited the financial statements of the Port of Seattle, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated March 26, 1997.

We have applied procedures to test the port's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirement was determined to be not applicable to its federal financial assistance programs:

- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the port's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the port had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed an immaterial instance of noncompliance with those requirements, which is described in the

accompanying Schedule of Federal Findings and has been reported to management in a separate letter dated March 26, 1997.

This report is intended for the information of management and the port commission and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 26, 1997

PORT OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs**

Port Commission
Port of Seattle
Seattle, Washington

We have audited the financial statements of the Port of Seattle, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated March 26, 1997.

We also have audited the port's compliance with the requirements applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- planning projects
- operation and maintenance
- disposal of land
- economic nondiscrimination
- consultation with users
- sponsor fund availability
- good title
- airport layout plan
- Single Audit Act
- consistency with local plans
- consideration of local interests
- special tests and provisions related to use of airport revenues and eligible terminal building development and construction as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments Catalog of Federal Domestic Assistance* grant agreement/contract
- claims for advances and reimbursements
- amounts claimed or used for matching

The management of the port is responsible for the port's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United

States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the port's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed an immaterial instance of noncompliance with the requirements referred to in the second paragraph, which is described in the accompanying Schedule of Federal Findings and has been reported to management in a separate letter dated March 26, 1997. We have considered the instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Port of Seattle complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the port commission and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 26, 1997

PORT OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Port Commission
Port of Seattle
Seattle, Washington

We have audited the financial statements of the Port of Seattle, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated March 26, 1997. We have also audited their compliance with requirements applicable to the major federal financial assistance program and have issued our report thereon dated March 26, 1997.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the port complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the port's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated March 26, 1997.

The management of the port is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Revenue/cash receipts
 - Purchasing/cash disbursements
 - Payroll
 - Work order processing
 - Land, facilities, and equipment
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Relocation assistance and real property acquisition
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements
- **Specific Requirements**
 - Types of services
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **General Requirements**
 - Subrecipient monitoring
- **Specific Requirements**
 - Eligibility

During the fiscal year ended December 31, 1995, the port expended 99 percent of its total federal financial assistance under one major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the port's major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

We noted certain matters involving the internal control structure and its operation that we have reported to the management of the port in a separate letter dated March 26, 1997.

This report is intended for the information of management and the port commission and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 26, 1997

PORT OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Federal Findings

The finding relates to the Federal Aviation Administration (FAA) Airport Improvement Program (AIP) (CFDA 20.106).

1. Late Submission Of Federal Audit Reports

Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*, paragraph 13.f requires the recipient to submit audit reports to each federal department or agency that provided federal assistance funds to the recipient. These reports must be submitted within 30 days after the completion of the audit, but in no case later than one year after the end of the audit period, unless agreed to with the cognizant agency.

Due to delays in completion of the schedule of federal awards by port management, the audit reports were not completed and were not submitted by December 31, 1996, as required.

This finding did not result in questioned costs.

We recommend the port establish procedures to ensure that federal audit reports are completed and submitted within the required time period.

Auditee's Response

The Port will assign appropriate staff to ensure that the reports are submitted timely.